Transcription for Dana Gas
1Q 2015 Results Investor Call

5th May 2015

Operator:

Good day and welcome to Dana Gas Capital Markets 1Q 2015 Financial Results Presentation.

Now I will turn the meeting over to Mr. Sriharsha Pappu from HSBC. Sir, you may begin.

Sriharsha Pappu:

Yes, thank you, Operator. Good afternoon everyone. On behalf of HSBC I welcome all of you to the Dana GasQ1 2015 earnings conference call. With us, we have the senior management of Dana Gas represented on the call.

I will now hand over to Mr Robinder Singh, Investor Relations and External Affairs Director. He will introduce the speakers and conduct the call.

Robinder Singh:

Thank you very much, Sriharsha, and a warm good afternoon to all of you on the call. Thank you for participating. Please note that the presentation may include certain forward looking statements and so please review the contents in the context of the risks involved in the context of these statements.

Let me now introduce all of us who are in the room. There's Dr. Patrick Allman-Ward, the CEO of Dana Gas; Ranga Kishore, our Head of Financing; Azfar Aboobakar our Head of Finance; and standing in for Paul Gayton, our Technical Director, we have Bruce Basaraba, our head of HSSE. And of course, dialing in from Egypt is Mark Fenton, our Head of Egypt operations.

With that, I will now hand over the call to Dr. Patrick for his opening comments.

Dr. Patrick Allman-Ward:

Thank you, Robinder. Welcome to everybody on the call, whatever time of day it happens to be where you are locally.

We are very happy to have you join us for the quarter one financial results, which I will start by summarizing in a few opening comments and remarks and then I'll hand on to my colleagues around the table and indeed to Mark in due course on the call to go into a bit more detail.

First of all I think one of the highlights is that production has remained strong in the first quarter. We have pretty well remained on par with our quarter one 2014 production rates of 68,700 barrels of oil a day equivalent. That of course has to be seen in the light of some difficult operating conditions, both with respect to falling oil prices, the ongoing difficult macro-economic environment in Egypt, and of course, what has been happening as far as security is concerned on the ground in northern Iraq.

As you're probably aware, as a result of lower oil prices many companies are actually dialing back on their CAPEX expenditure for the year. We are bucking the trend in that respect because on the back of the Gas Production Enhancement Agreement that we put in place with the Egyptian government last year we have secured a payment mechanism independent of government that will allow us to recover revenues from the export of liquids production that comes from incremental production related to the new phase of investment.

So that has actually emboldened us to go ahead with a new phase of investment in Egypt which will amount to about $350 million over the course of the next two-and-a-half years. And we are actually in the process of mobilizing three rigs to start activities towards the end of this month. Mark will give some more details around that later in the call. We anticipate that those drilling activities will result in additional production from Egypt in the second half of the year.

In the Kurdistan region of Iraq, our LPG sales increased as we brought the LPG plant up to full production capacity after it was brought back on stream in July of last year.

On the financial side we have, of course, been significantly impacted by the lower oil prices, average condensate prices for Quarter 1 for 2015 of $51 contrast with a similar average over Quarter 1 2015 of $106 and LPG prices of $41 against $76 in the first quarter of last year so clearly, a significant impact on our financial position.

Gross revenues were at $115 down from $180 million last year, EBITDA at $55 down from $106 million, and net profit at $12 down from $45 million. The lower revenues were offset to some extent by lower royalty payments and tax charges and we've also made further reductions in cuts in our G&A costs.

Our cash balance has also shrunk from $184 million to $144 million to the end of the first quarter, although it remains at a healthy level. The reduction was due to the fact that we had to make profit payments on the sukuk, we made further (and final) equity investments to deliver the Zora Gas project and we also made payments in Egypt related to the Gas Production Enhancement Agreement.

Our cash flow position should stabilize however from now on in regard to the higher oil prices that we are seeing reflected in current oil prices with Brent back up to $65-66, and we anticipate that that will continue for the remainder of the year.

In addition, we expect to continue with our local sales of liquid products in the Kurdistan region of Iraq. In addition, we expect and anticipate in keeping with pronouncements that are being made by various government ministers in Egypt that they will continue to make bullet payments to the industry in order to pay off the receivable arrears that they owe to the industry as a whole by the end of 2016.

We're very pleased with the progress we've been making on the Zora Gas Field. We have now managed to install the offshore platform. We've installed the pipeline connecting the platform to the onshore, whilst the onshore gas processing facilities are proceeding very well indeed. The drilling rig was actually mobilized on the 8th of April to start the drilling operations. So we are hopefully to remain on track for a midyear 2015 first gas production.

The total amount of production expected is about 40 million standard cubic feet of gas today or about 6,650 barrels of oil equivalent today, which is around 10% of our current existing production. So it's a small but important incremental production. It is also important because it reflects the fact that this is the first additional investment in a production facility that we have brought on stream outside of our historical Egyptian and northern Iraq asset base.

We're also extremely pleased that the Zora project to date has completed 1 million man hours with zero loss time injuries. Those of you who have been involved in the oil and gas industry will know that that is quite a significant achievement and I'd like to take this opportunity to recognize and thank the project management team in Dana Gas but also, of course, the contractors, the contractor management, and the contractor staff who have all made that possible.

So with that, I'd like to hand over to Azfar who will dig into the financial aspects of the quarter in a bit more detail.

Azfar Aboobakar:

Thank you Patrick. Good afternoon everyone and good morning depending on which time zone you're in. I will now run through our first quarter financial results in a bit more detail. And I'll be referring to the slide pack which is available on the website.

Starting with Slide 7, on Slide 7 we have presented the first quarter gross revenue, gross profit, net profit, and EBITDA with comparison to the first quarter of 2014.

As announced this morning and mentioned by (Patrick) earlier on, Dana Gas reported a net profit of $12 million for Quarter 1 as compared to a net profit of $45 million in the corresponding period.

Gross revenue was lower by 36% at $115 million as compared to $180 million in Quarter 1 of 2014. The main reason for this decline in our revenue was the sharp decline in realized hydrocarbon prices in Quarter 1 2015 compared to the prices we had in Quarter 1 of 2014, which were all above $100.

Whilst production has remained stable resulting in a healthy contribution to our revenue, our G&A costs have reduced during the quarter and hence gross profit and net profit numbers are slightly better than what one would expect in a low price scenario.

However, the gross profit, net profit, and the EBITDA numbers were impacted by the lower topline.

I will move now to Slide 8. Here we will look at the key variances in profitability between the first quarter of this year compared to the first quarter of last year.

Whilst overall production remains stable, LPG production in Kurdistan region of Iraq increased during the quarter and contributed an additional $6 million to the top line whilst lower liquid realization as a result of lower oil prices, stripped $71 million off the top line.

At this point it is important to highlight that almost 39% of the company's revenue is derived from the sale of natural gas which is at a fixed long term price. And this acts as a natural hedge against the decline in oil prices. Linked to lower revenue, our royalty and tax in Egypt was also lower by $22 million.

Depreciation and amortization decline by $5 million and our G&A costs were lower by $3 million during the quarter due to the cost optimization which has been in place since last year.

The company booked a loss of $1 million on the ineffective portion of the Egyptian currency cash flow hedge and finance costs were also lower by $3 million due to the Sukuk conversions that took place in 2014.

We'll move to Slide 9. Here we have the bridge comparing profitability in the first quarter of 2015 compared to the last quarter of 2014. So it's on a trailing quarter basis.

Again, the lower price impact was more severely felt in first quarter when prices declined further. As a result of cost optimization both cost of sales and G&A were lower during the current quarter and so was the finance cost as I explained earlier.

We had booked a one-off impairment charge amounting to $22 million in Quarter 4 of 2014 for certain oil and gas interests in Dana Gas Egypt. And this was obviously not repeated in the first quarter hence you see a pretty large variance in the bridge.

Overall, the company managed to remain profitable in the first quarter despite a sharp decline in the oil prices. And we hope and expect our profitability to improve in the second quarter as oil prices recover above $60. They are already at $65 as of now.

Let's move to Slide 10. On this slide we have the production graphs which have been presented for your reference comparing Egypt and KRI production, with first quarter of 2015 and also on the second trailing basis comparing with first quarter of 2014. I've already explained the impact of production on revenue and any further analysis will be covered in the respective business highlights, which will be covered by Mark and Bruce.

On the following slide there is a comparison of the realized hydrocarbon prices. As Patrick mentioned earlier, there was a sharp decline in condensate and LPG prices in Quarter 1 of 2015, which were lower by 52% and 46% respectively when compared to first quarter 2014 realized prices. And this negatively impacted our topline and the bottom line.

Even if we compare to the fourth quarter of 2014 prices continued the downward trend and as I said earlier, we hope - and expect, the second quarter to be much better in terms of the oil prices since they've already recovered back above $60.

On Slide 12 now, here we have the receivables and collection data for Dana Gas Egypt and Kurdistan region of Iraq. In Egypt, during the quarter we collected cash of $5 million and the agreed offsets of liabilities due to (EGAS and EGPC) and government owned contractors amounting to $15.5 million.

Thereby this gave us a realization against our revenue of 68% during the first quarter, which is a pretty reasonable number. At period end, the trade receivable balance stood at $243 million compared to $233 million at the end of 2014, an increase of 4%.

In Kurdistan region of Iraq, our revenue from local sales of condensates and LPG during the quarter was adjusted against cash deposit of $18 million we received back in September 2014. At the period end receivables from KRG stood at $770 million, up from $746 million at the end of 2014, an increase of 3%.

With this I will hand over to Mark Fenton, General Manager of Dana Gas Egypt who will take you through the business highlights.

Mark Fenton:

Good morning and evening ladies and gentlemen. My name is Mark Fenton. I'm the General Manager of Dana Gas Egypt and it's my pleasure to present to you an update of Egypt operations for Q1 2015. Please refer to Slide 14 entitled Egypt Nile Delta Operations.

Dana Gas Egypt has 13 development leases that are onshore Nile delta and are shown - shaded in pink. There are three main development lease areas.

The El Wastani development lease in the northwest represents about 9% of the company's production, the West El Manzala Development Leases in the central areas provide approximately 71% of the production and the West El Qantara Development Leases in the southwest have the balance of the production.

In the West El Manzala Development Lease EGAS recently approved a new Development Lease for Begonia during the quarter. Production for Q1 2015 average 37,700 barrels of oil equivalent per day consisting of 182 million standard cubic feet per day of gas, 4,570 barrels per day of condensate, and 243 tons per day of LPG average.

This compares with an average production from Q1 of 2014 of 38,900 barrels of oil equivalent per day. This reduction is as a result of natural decline in the performance of the fields.

However, it's worth noting that this 3% reduction is an excellent performance as the natural decline rate is approximately 15% per year. And Dana Gas Egypt has managed to minimize its reduction due to production optimization and some successful recompletion work.

In the coming months as production from work over and new wells associated with the GPEA occurs, this trend will be reversed. From the commercial point of view, during the period a gas sales agreement between Dana Gas Egypt and (EGAS) covering production from the Balsam and Begonia leases was agreed back in February.

I'd now refer you to the next slide entitled Gas Production Enhancement Agreement Update. The gas enhancement production project is an accelerated work program covering Dana Gas's development leases over the next seven years with most of the activity occurring in the next two years or so. Over 30 development wells will be drilled and a similar number of work overs will also be done.

The project was agreed between Dana Gas and EGAS, the government authority responsible for gas production in August 2014, and is known as the Gas Production Enhancement Agreement - GPEA.

The main terms of this agreement include a binding commitment by the government to allow Dana Gas to export the condensate and obtain 100% of the proceeds from the incremental condensate production above a "no further action" baseline in return for Dana Gas executing an agreed work program. This will be the mechanism to reduce and eventually eliminate the outstanding receivables in Egypt.

The work over and two drilling rigs will commence operations in the next quarter. The work over rig will commence a campaign of recompletions, work overs, and abandonments that will see some 14 activities before the end of this year.

The two drilling rigs will commence drilling on the Balsam field discovery with Balsam 2 being a development well and Balsam 3 a step out appraisal, exploration well. Balsam 2 will be Dana Gas's first horizontal well and should Balsam 3 be successful this well will also be completed as a horizontal well.

From a project point of view, preparations are underway to acquire and lay some 130 kilometers of pipeline that will be necessary to evacuate gas from these wells and other wells in the sequence.

In addition, a production capacity increase from the current sales gas limit of 200 million standard cubic feet per day to 250 million standard cubic feet per day is the focus of our attention. And this capacity increase will be needed early in 2016.

Please refer to Slide 16 entitled North (El Arish) Offshore Opportunity. In April 2013 Dana Gas Egypt was awarded a 100% working interest in the north (El Arish) offshore Block 6 concession area.

The area is located offshore Nile Delta in the Eastern part of the Mediterranean Sea. Preparations for a 2000 linekilometer 2D seismic acquisition survey targeting the deeper water northern part of the concession are now completed and the Company is now awaiting relevant government approvals before acquisition can commence.

Please refer to Slide 17 entitled Blocks 1 and 3 Onshore Nile Delta Opportunities. The North El Salhiya, Block 1, and El Mataria, Block 3, onshore concessions in the Nile Delta were ratified by the Egyptian government on the 15th of January this year.

Block 1 is a large block, some 1,527 square kilometers in size and is located on the southeastern part of the map shown and is included in part of the El Manzala lake area.

This block is operated by Dana Gas with a 100% working interest and is considered to be a natural extension of Dana Gas's shallow delta gas play and as such we expect that exploration in this area will lead to an extension of our current business with production tied into our existing infrastructure.

To this end a major 3D seismic survey is planned and tendering preparations are well advanced. Acquisition is expected to occur in Q4 this year and Q1 next year with exploration drilling expected before the end of next year.

In Block 3, Dana Gas has a 50% working interest and the block is operated by BP. This block has been acquired with the specific intention to explore the deep potential of the Oligocene play, which has proven successful offshore by BP and BG.

Planning for drilling a deep exploration well has commenced and the well is expected to be spudded in early 2016. Should the Block 3 exploration well be successful this will have implications for the play more widely. And for this reason Dana Gas and BP have been in discussion regarding a possible joint participation in some of Dana Gas's existing and adjacent development leases.

So this now concludes the update on Egypt operations. And I'll now hand over to Bruce Basaraba who will be providing KRI and Zora updates. Thank you.

Bruce Basaraba:

Good morning, good afternoon ladies and gentlemen. My name is Bruce Basaraba and I'm the head of HSSE for the corporation. I'm filling in for Paul Gayton, our Technical Director today. I'd like to begin with Slide 19 and work our way through to Slide 22.

As mentioned earlier, I'll be referring to our Kurdistan operations as well as the Zora project. Referring to Slide 19, our gross production on average for the quarter was at 76,070 barrels of equivalent per day. And this consisted of 318 million standard cubic feet of natural gas, 14,000 barrels of condensate, and 750 metric tons of LPG.

Forty percent of this production is Dana Gas' share. Production of LPG has increased from 420 tons per day in Q1 2014 to 750 tons in Q1 2015, a significant increase.

All liquids continue to be sold in the domestic market in Iraq and we also have achieved over this period of time zero loss time incidents for the quarter within our Kurdish operations.

Refer to Slide 20 for the Zora project update, as was stated earlier, the Zora project is progressing on time. We're in the first phase of the project. We project that we will have 40 million standard cubic feet of gas per day of gas produced by mid-2015, which is an equivalent of 6600 barrels equivalent of oil per day.

Our offshore pipeline pre-commissioning has been ongoing and has just been completed in fact in early Q2. The offshore platform jacket has been installed. The drilling rig has been mobilized to site. We are in the pre-commissioning and final stages of the topside construction. Onshore plant final hookup has started and we are well in progress with that.

And the big achievement as well over this period of time with all the construction activities has been that we've achieved zero loss time injuries with over 1 million man hours at work. The quarter was excellent from a safety perspective with the considerable amount of man-hours that's been undertaken right now on the construction sites as well as with the offshore project.

Slide 21 is an overview of - or a photograph of the initial phases of the offshore pipeline that was laid, the offshore pipeline is 35 kilometers long and the initial 600 meters of the pipeline had to be trenched near the shore. So this is a photograph showing the offshore trenching process that was done for the project.

Slide 22 has two photographs for the Zora project. The first slide or the first photograph shows the slug catcher, which is the last heavy lift of the project being placed last week on the gas plant location. So at this point we have completed all of the major lifts and the major construction of the skid mounts for the project. The second photograph on Slide 22 shows some of the framework for some of the pipe racks and the areas where the equipment will be installed.

I will turn it now over to Patrick.

Dr. Patrick Allman-Ward:

Thanks Bruce. I hope you've been excited by some of those photographs that you've seen. Once the Zora project is up and running we'd be very happy to invite people to come and visit the facilities and Robinder Singh is very happy to make a list of keen participants. So if you're interested in taking a look at the plant, what's actually involved in this project, then please let Robinder know and he'll be glad to make arrangements for you.

Before I summarize with a few bullet points I just wanted to give Ranga an opportunity to say a few words about the progress that we've made in the first quarter against the significant milestones regarding some of the financing projects that we've been involved in.

Ranga Kishore:

Thank you very much, Patrick. Good Morning and Good Afternoon Ladies and Gentlemen. This is an update on financing activities during the first quarter of

2015. On, Zora project we achieved financial closure and we have drawn down monies in March to the extent of $29 million.

Also we completed an Equipment financial leasing arrangement with a company in Egypt called CorpLease. It has been drawn down to the extent of $8 million with the remaining $4 million to be done in the second quarter. A building financial lease is also expected to be completed in the 2nd Quarter.

We've also completed a fully secured loan against Egyptian pounds in US dollars to the extent of $ 25 million but the drawdown will take place in the subsequent quarter.

So that completes the financing update.

Dr. Patrick Allman-Ward:

Yes, I think one of the things that modestly Ranga has not mentioned is that in fact Dana Gas was the recipient of a financing award earlier this year where the Zora loan was recognized as being an outstanding piece of business so congratulations to Ranga and his team on that achievement.

I think another element perhaps that we haven't touched upon so far is the fact that Dana Gas has just recently held its annual general meeting and in that annual general meeting a new Board of Directors was elected comprising 12 members down from the 18 members that we had previously.

The new Board has elected Mr Hamid Jafar as the Chairman with Mr Rashid Al Jarwan as the Vice-Chairman.

So let me summarize the overall quarter results in a few brief words. Overall a difficult operating environment but I'm very pleased that Dana Gas has delivered a stable production and a reasonable financial performance under the circumstances and certainly with upside production potential as we start to execute the Gas Production Enhancement Agreement in Egypt in the third and fourth quarters.

We continue to keep a sharp focus on our collections of course. And we are continuing to take a look at our cost base with a view to trying to take out more unnecessary costs as and where possible.

We're pleased with the progress on the Zora project and we continue to remain on track in terms of budget and timeline with a midyear first gas target. We're keeping our capital expenditures very focused this year on quick-win opportunities, obviously Zora is one such and clearly the GPEA project in Egypt is another.

We have very exciting long term growth potential in our portfolio. I think quite exceptional for a company of our size, particularly in Egypt in both the Blocks 1, 3, and the offshore Block 6. And we are going to continue to execute an exploration program this year, which will have a limited capital exposure.

We have three arbitrations currently in progress, which we are directly or indirectly involved with. The first, of course, involves our arbitration with the Kurdistan regional government with the LCIA in London.

We had a one-week hearing between the 20 and 24 of April, which considered selected issues with respect to the merits of the case. And we expect a ruling to be made by the Tribunal on those issues in the later part of the middle of the year.

We also initiated an arbitration together with Crescent Petroleum against RWEST relating to breach of confidentiality in the Kurdistan region of Iraq in 2010. And that case has progressed and will now be progressing through a quantum phase, which will commence in the second half of this year.

We are indirectly involved in the ongoing UAE gas project arbitration where our sister company, Crescent Petroleum, is in arbitration with the National Iranian Oil Company, NIOC, for the breach of contract for the non-delivery of gas pertaining to the contract that was signed earlier this century for delivery of gas to start in 2005. The quantum phase of that arbitration is also now commencing.

Finally but certainly not least, we're very pleased with the Quarter 1 HSSE performance. It's never opportune or appropriate to be complacent and we will continue to keep a sharp focus on our HSSC performance going forward.

So that's it from me. I'm happy to round up now and we'll pass it back to Robinder who can perhaps help to manage the Q&A session.

Robinder Singh:

Thank you very much Patrick. Sriharsha, we're now open to questions so if you'd wish to open up the lines we can take questions from there, please.

Operator:

Thank you, sir. We will now begin the question-and-answer session. If you would like to ask a question press star and then 1. Please record your name slowly and clearly when prompted. It is required to introduce your question. To withdraw your request you may press star then 2. One moment please for the first question. Our first question is coming from the line of Mr. Zafar. Sir, your line is open.

Mr. Zafar:

Thank you. I had a few questions if I may, I'll ask the first two or three and then move on. So can you just give us an update on what your CAP EX was in the first quarter and what you expect for CAP EX in the remainder of this year? And how much of that is for the GPEA spend?

Azfar:

Hello, in respect of your question for the CAPEX, the first one would be the (Zora) CAPEX, you know, for which we started the drawdown on the project financing this year.

So there's another $100 million of CAPEX to go in 2015 of which we've already spent something like $35 million in the first quarter.

We then have the GPEA CAPEX for the gas production enhancement in Egypt and over there we expect to spend another - round about $150 million this year - $150 to $175 million.

Mr. Zafar:

And the GPEA CAP EX, that starts from the second quarter of this year?

Azfar:

Well, no, it's actually started from the last quarter of 2014 because we started placing orders for the long leads in December. And it has continued in the first quarter. As Mark Fenton mentioned, the rigs have been mobilized and the drilling will start in the second quarter. So you'll see the CAPEX on the rise.

Mr. Zafar:

I see. And so the - so total CAPEX in 1Q, how much was that? Everything, Zora, as well as others.

Azfar:

Yes, the total CAPEX would have been around - maybe around $45 million - $45 to $50 million in totality amongst both the projects.

Mr. Zafar:

Got it. In terms of cash collection, in KRG - I guess if I look at Slide 12, the footnote says that your sales in 1Q were offset against a deposit you received. But then the charge, you've got a $14 million collection. So what was the actual cash collection during the quarter? Was it 14 or was it zero?

Azfar:

Well, you see the total revenue for which we should have collected was $14 million, right. Now we had received a guarantee deposit back in September of $18 million and what we did is the $14 million which we should have collected was offset against the deposit because that contract was coming to a closure in March.

So our collection is $14 million. We've not received physical cash, it was received in advance at the end of last year.

Mr. Zafar:

Got it, so basically - that's what I was asking, if you got any physical cash. And then going forward, can you give us some guidance on - I mean assuming let's say, 65 - 60-65 average Brent, what cash collection should we expect from KRI on a quarterly basis?

Azfar:

Well, it really depends on the oil price but you can extrapolate theQ1 revenue realization for KRG. You can apply your pricing forecast to the production levels for second, third, fourth quarter and come up with a collection number.

Volumes will remain stable around the same level. It will just be the local sales which will continue, both for condensate and LPG. So quantities would remain the same as Bruce mentioned, just apply the price forecast and take a 40% share for us.

Mr. Zafar:

Okay, so the 14 - just adjusted for prices going forward.

Azfar:

Right.

Mr. Zafar:

Okay, got it. And then on the Egyptian side, isn't there an arrangement with the Egyptian counterparties that you'll get paid something on a monthly or a quarterly basis just to cover your operating expenditures? Is that the case? And if that is the case how much is that...

Azfar:

Yes, we do. We receive $5 million every month to cover for the operational expenditures. In the first quarter we went through a number of offsets and the money which was supposed to come in February and March actually came later on in April.

Mr. Zafar:

Got it, okay. And so - I mean just looking at your CAP EX plan for this year, I mean I guess Zora is funded through the debt facility and then the Egyptian CAP EX - 150 to 175, some of it's already gone through. So are you fully funded for this year given your CAP EX estimates or do you need to raise more money?

Azfar:

Well, we are fully funded because we received$60 million end of the year, rather on 31st of December 2014. So that has been carried forward in the current year. Our operational expenditures are being met by the monthly payments.

The GPEA collections would kick in, which would be the direct sales of condensate, plus under that contract EGAS and EGPC are obligated to pay our bills within the maximum period of 12 months.

So invoices which have been raised in last September, October and henceforth would start being paid from this year September. So in the third quarter and the fourth quarter you'd see regular payments coming through because they will reach a maximum period of 12 months.

In addition, as mentioned by Ranga, the financing which we've done through the sale and lease back.

Mr. Zafar:

Right, and that financing - so $8 million was already drawn in the first quarter, $4 million is expected to be drawn in the second quarter, and then you have a building lease - sale lease back to complete. I'm not sure what the amount there is. And then there's a $25 million.

Ranga:

That's around $13 million for the Building Financial Lease Tranche.

Mr. Zafar:

Thirteen million, so that'd be the second quarter.

Ranga:

Yes

Mr. Zafar:

And the Egypt secured facility of $25 million, right? And that's - that was in the second quarter as well.

Ranga:

First, there is an equipment and building lease. The equipment lease tranche has already been drawdown to the extent of $8 million out of $12 million. And then the building lease will be done in the second quarter hopefully depending upon the requirements obviously.

And then we also have a fully secured loan where you pledge in Egyptian pounds equivalent of US$ 25 million plus some margin and then raise US$25 million for the purpose of this project, that way you're able to use US dollar for meeting some of the CAPEX requirements in US dollars.

Mr. Zafar:

I see, but it's basically secure against cash, local currency cash, is that - it's not additional liquidity.

Ranga:

You're absolutely right.

Mr. Zafar:

Okay, got it, thank you.

Operator:
Thank you, sir. Our next question is coming from the line of Mr. Loic de Robert Hautequere Sir, you line is open.

Mr Loic

Yes, hi, good afternoon, thank you for taking my questions. I have a few questions. The first question is on the GPEA. When can we expect to see incremental benefits from the GPEA? I have a second quarter in the back in my mind but if you can confirm we'll start - that's the case or is it delay versus that timeframe?

Dr Patrick:

Yes, I think when we last talked about this, which was a while back, we had hoped to get started on the GPEA project a little earlier. It took us longer to negotiate the ancillary documents than we had expected or even hoped.

So the startup of drilling activities is later than we had originally anticipated. We had thought we'd get started in February and now we're going to start in May. But in terms of how the activity will impact the production bottom line let me just hand on to Mark to give us an update on that.

Mark:

As I mentioned in the presentation, we have a work over rig two drilling rigs. The work over rig will start recompletions within about a month from now and the recompletions are essentially going into existing wells and re-perforating zones that have not been perforated before.

So we expect incremental condensate and obviously gas production immediately from those wells because they're already tied in.

As for the drilling rigs, the wells take longer to drill. Balsam 2 is a deeper target, it's a new well, it's not yet tied in, and it's also a horizontal well. So there are a few months to go before the production from that well will actually be tied in.

But in the second half of the year we'll start to see the production coming through from these new wells. We also have another well, Balsam 1, the original discovery well in Balsam which we plan to put a pipeline to in the coming three months or so.

So you'll see by the end of the second quarter there will be a jump in our production, which will build as the second half of the year goes through.

Mr Loic

Okay. And staying on the Egyptian operations, it seems that your gas production declined or it has declined in the first quarter. You attribute that to a depletion of the gas fields. Is the depletion in line with your expectation?

Mark:

Generally it's less than our expectation. Normally - historically our normal decline rate is around 15% per year. And we've had some activities where we've managed to hold the line on the production. Also, there is some de-bottlenecking activities that have contributed to enhancing production.

So generally I'd say we've done well but it must be remembered that our gas fields are relatively shallow so the decline rates on the fields is reasonably high. So that's the reason why we're not necessarily dissatisfied with the fact that our production is down a little bit in that time.

Mr Loic

Okay, and in terms of the payment from Egypt there was a number of offsets in the first quarter. Do you expect any further offsets or should we count a minimum of $50 million of actual cash payments from the Egyptian government for the remaining quarters?

Mark Fenton:
No, we don't have any other offsets in mind at this point in time. So collections going forward - what we received directly from the government in relation to outstanding invoices. So we normally get a minimum of $5 million per month and then anything above that is as per what the government can afford to do at the time.

We're doing reasonably well on collections so far this year but as I mentioned, from August onwards we have part of the agreement, which states that no invoice will be - can be older than 12 months.

So invoices from August 2014, which I think averaged around $15 million per month, that will kick in and we'll see that baseline of collections jump up from August, September this year. And in addition to that we have incremental condensate beginning to come through in the second half of the year as well.

Mr Loic
Okay. I'd like to ask you again about the loan in Egypt. I know that you have already been asked about it but I'm not sure I understood the answers.

You had the number of $ 25 million - completed in the first quarter, is that correct? I just want to understand what transactions you had completed and how much you got for each.

Ranga:

I think there are two parts to the loan. The first transaction is done now. And the second transaction is expected in the second quarter.

Mr Loic

Okay, I mean is this your headquarter selling these back for which you were expecting 25 million? Its building and some unused equipment in Egypt. And how much - including what you received on it were you expecting it the second quarter? How much is that all together?

Ranga:

Totally it will be $ 25 million, of which 6 million has been drawn into the first quarter.

Mr Loic

Okay, okay. Now moving to your KRI operations, in the fourth quarter you have received, I believe net $27 million for four months from September - beginning of September until the end of December.

And if I'm not mistaken you have hinted or suggested that this collection rate could be used for, you know, the following quarters. It seems that in Q1 you collected less than what was implied - what you received in the fourth quarter.

So your answer earlier was that we should kind of use $14 million as a run rate - cash collection from KRG. I mean it seems to be well below what you have experienced in the fourth quarter. I mean where is the change coming from?

Dr. Patrick:

Yes, just a correction there. We actually received $34 million last year.

Mr Loic

Was it net?

Dr. Patrick:

That was gross, of which $18 million was the cash advance. But these were all based on the contract prices - the local contract prices pertaining at the time, which were linked to, of course, the oil prices that were pertaining at that time. And the average for Quarter 4 for condensate was $73 and the average for LPGs was $50 for Quarter 4 of last year.

Now Quarter 1 of this year, those prices of course have further declined. So that's the reason why you see that cash collections in Quarter 1 in Kurdistan have declined to $14 million over the quarter because the amount of money that we're collecting, which is linked to international prices, has declined from Quarter 4 to Quarter 1.

Mr Loic

Okay. Okay. I think that covers it for me. Thank you.

Operator:
Thank you, sir. Our next question is coming. Go on, sir. Okay, our next question is coming from Ms. (unintelligible). Ma'am, your line is open.

Question:

Hi, so maybe you've mentioned this already but I just kind of wanted to clarify once more, in your statements on the website you mentioned that the $18 million cash advanced for local sales of condensate made in September was unwound.

Could you help us to understand what you really mean by unwound? Are we to expect the same payments of cash advances going forward?

Dr Patrick:

Yes, so there was, of course, a cash advance made and then the company that made the cash advance said to us, well, rather than paying you cash for the remaining three quarters of January, February, March of this year we will offset the amount of money that we owe you against the fact that we've prepaid you to that amount.

Question:

Okay, I see. So I guess going forward we can assume the same pattern relatively speaking.

Dr Patrick:

So what's very likely is that indeed, with the retendering of the contract with the effect from the 1 of April that we will get a cash advance from the contractor, which will represent, you know, a certain number of months of prepayment and then we will also at the same time get payment on a monthly basis.

And no doubt as we come to the end of the contract period, which is in the case of condensate is typically six months, then we will see that that cash advance will be unwound from the overall sums due.

Question:

Understood. Then my first question has to do with your cash bank balances. In one of the notes you note that 47% of your cash is held in Egyptian pounds. Is one way of understanding this is that this is the remainder of the cash balance that - and I believe at the end of last year was $ 100 million?

Azfar:

Right. It is essentially for the local expenditure in Egypt during 2015.

Question:

Okay, so if we're trying to understand what the remaining cash balance is it right to just take 40% of your remaining cash on balance sheet?

Azfar:

Yes, right.

Operator:

Thank you, ma'am. As of this moment we have no further questions on queue.

Robinder:

If there are no further questions then I think we can wrap up. Thank you very much all of you, again, for dialing in and taking time off for the call. My contact details as you are aware are available on the presentation deck.

Please be free to write to us or call if you have any further inquiries. And I also want to thank you to Sriharsha and HSBC for organizing the call.

Sriharsha Pappu:

Many thanks to the senior management team of Dana Gas and also to all of you for dialing in. There will be a seven day replay facility available for the call. Details of that are on the invite. With that, we conclude the conference call.

Operator:

And that concludes today's conference. Thank you for participating. You may now disconnect.

ENDS